

Message Text

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SUBJECT: ANDREOTTI'S OPENING STATEMENT TO PARLIAMENTARY DEBATE
ON ECONOMIC PROGRAM

REF: ROME 18484

1. SUMMARY. APART FROM INCREASING THE NEW REVENUE
CEILING TO 5,000 BILLION LIRE AND PROPOSING THE MEANS TO
REACH IT AND INVITING LABOR AND INDUSTRY TO WORK OUT AN
AGREEMENT TO REDUCE LABOR COSTS (REFTEL, PRIME MINSITER
ANDREOTTI, IN HIS OPENING ADDRESS IN THE PARLIAMENTARY
ECONOMIC DEBATE ON NOVEMBER 10, DISCUSSED THE STATE OF CASH
BUDGET DEFICIT FINANCING AND SET FORTH A FRAMEWORK
FOR IMMEDIATE ASSISTANCE TO LOCAL GOVERNMENT. END SUMMARY.

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2. PUBLIC FINANCE. PRIME MINSITER ANDREOTTI SET A NEW GOAL

FOR INCREASED REVENUES IN 1977 OF 5,000 BILLION LIRE. MEASURES ALREADY PROPOSED ACCOUNT FOR 3,020 BILLION LIRE AND THE REMAINING 2,000 BILLION WILL BE RAISED BY: (A) ADVANCE PAYMENT IN SEPTEMBER OF 75 PERCENT OF ANTICIPATED INCOME TAX DUE IN 1977 FOR SELF-EMPLOYED PERSONS AND BUSINESSES (1,500 BILLION LIRE), AND (B) RAISING SOME REGISTRATION AND STAMP TAXES (500 BILLION). BOTH MEASURES WILL DIRECTLY AFFECT DISPOSABLE INCOME AND ARE NON-INFLATIONARY IN THAT NEITHER WILL IMPACT ON EITHER THE COST-OF-LIVING INDEX OR THE SPECIAL WAGE ESCALATOR INDEX.

3. COST OF LABOR. THEN THE PRIME MINISTER ISSUED A CAREFULLY-WORDED INVITATION TO THE LABOR UNIONS AND THE CONFEDERATION OF INDUSTRIES TO ARRIVE AT AN AGREEMENT WHICH WOULD RESULT IN A REDUCTION OF THE "PERVERSE EFFECTS" OF THE AUTOMATIC WAGE INDEXATION MECHANISM AND THUS RESTORE COMPETITIVENESS TO THE INDUSTRIAL SECTOR. THIS INVITATION PERMITS THE UNIONS AND INDUSTRY TO DEFINE THEMSELVES ANY AGREEMENT THEY MAY REACH ON MEANS OF REDUCING THE COST OF LABOR. IF THE TWO DO NOT ARRIVE AT A SATISFACTORY AGREEMENT --TO BE SO DETERMINED BY THE GOVERNMENT--ANDREOTTI RAISED THE SPECTRE OF LEGISLATIVE MEASURES TO REDUCE THE COST OF LABOR THROUGH GOVERNMENT ASSUMPTION OF A PORTION OF SOCIAL INSURANCE COSTS, AND FINANCING THOSE COSTS THROUGH THE UNFORTUNATELY INFLATIONARY MEANS OF INCREASING VALUE ADDED TAXES.

4. LOCAL GOVERNMENT FINANCING. ANDREOTTI ASSURED LOCAL GOVERNMENTS--AND NOT JUST THOSE HABITUALLY IN LARGE DEFICIT--OF ASSISTANCE FOR IMMEDIATE NEEDS UNTIL THE END OF THE YEAR (SALARIES OF EMPLOYEES AND PRESSING SHORT-TERM DEBT), HELP WITH THE SHORT-TERM DEBT BURDEN (WHICH WILL TOTAL 6.000 BILLION LIRE BY END OF 1976) AND A LONGER TERM SOLUTION TO FINANCING PROBLEMS (TOTAL LOCAL GOVERNMENT INDEBTEDNESS IS EXPECTED TO REACH 30,000 BILLION LIRE BY THE END OF 1976).

5. THE SHORT-TERM DEBT PROBLEM WILL BE RESOLVED BY THE DEPOSIT AND LOAN INSTITUTE (CASSA DEPOSITI E PRESTITI) PLACING MEDIUM TERM DEBT INSTRUMENTS AT MARKET RATES WITH THE COMMERCIAL BANKS HOLDING LOCAL GOVERNMENT SHORT-TERM CREDIT. FUNDS THUS OBTAINED WOULD BE RELOANED AT LOW LIMITED OFFICIAL USE

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INTEREST RATES FOR MEDIUM TERM TO THE LOCAL GOVERNMENTS TO REPAY THEIR SHORT-TERM DEBT WITH THE BANKS.

6. ANDREOTTI STATED (AS HE HAS IN PAST PRESENTATIONS INCLUDING HIS FIRST PRESENTATION TO PARLIAMENT) THAT CONSOLIDATION OF LOCAL GOVERNMENT INDEBTEDNESS MUST BE ACCOMPANIED BY SOME COMMITMENTS BY THE LOCAL GOVERNMENTS WHICH WOULD REDUCE THEIR ABILITY TO INCUR

SUCH LARGE INDEBTEDNESS IN THE FUTURE (E.E., BALANCED CURRENT EXPENDITURE BUDGET, MORE EFFICIENT INVESTMENT PROGRAMS, HIRING FREEZE). THE MINISTERS OF BUDGET, INTERIOR, TREASURY AND FINANCE ARE TO PROVIDE A PLAN TO ADDRESS THE OVERALL PROBLEM AND PROPOSE SOLUTIONS IN THE NEAR FUTURE.

7. THE CASH BUDGET DEFICIT. ANDREOTTI ASSERTED THE THE GOVERNMENT WOULD, FOR THE MOST PART, STAY WITHIN CEILINGS ON CASH EXPENDITURES AND CREDIT AGREED TO WITH THE EC IN MARCH 1976. HE CITED FIGURES FOR THE FIRST NINE MONTHS OF 1976 AS FOLLOWS:

YEAR-CEILING 9-MO. CEILING 9-MO. ACTUAL
(BILLIONS OF LIRE)

GOVT. SPENDING	39,700	30,100	29,546
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CASH DEFICIT	13,800	8,150	9,700
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TREAS. FINANCING	5,700	3,800	6,884
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DOMESTIC CREDIT	29,500		16,200
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8. HE NOTED THAT, ALTHOUGH THE NINE-MONTH CASH DEFICIT IS GREATER THAN THE CEILING FOR THAT PERIOD, IT PRIMARILY REFLECTS THE SPECIAL COSTS FOR ASSISTANCE TO FRIULI AND THE EFFECTS OF THE ABOLITION OF JOINT INCOME TAX RETURNS. IT IS EXPECTED THAT THE DIFFERENCE WILL BE RECOVERED IN THE FOURTH QUARTER PRINCIPALLY THOUGH THE ADVANCE PAYMENTS BY BANKS OF INTEREST WITHHOLDINGS.

9. ALSO, THE APPARENT DIFFERENCE BETWEEN ACTUAL AND CEILING ON MONETARY BASE CREATION FOR TREASURY FINANCING IS MISLEADING, LIMITED OFFICIAL USE

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SINCE ACTUAL AMOUNT INCLUDES 4,000 BILLION LIRE OF LIQUIDITY ABSORBED BY THE PRIOR DEPOSIT SCHEME WHICH WAS AGREED TO BY THE EC. ANDREOTTI STATED THAT ONLY THE DOMESTIC CREDIT CEILING WAS EXPECTED TO EXCEED THE CEILING FOR THE YEAR. THE 1977 CASH BUDGET IS EXPECTED TO FALL TO ONLY 13,600 BILLION LIRE, AND DOMESTIC CREDIT TO RISE TO 34,800 BILLION (18.4 PERCENT INCREASE OVER 1976 FORECAST EXPANSION.

10. COMMENT. THE MEANS OF RAISING THE FURTHER 2,000 BILLION LIRE WHICH THE PRIME MINISTER ANNOUNCED ARE, UNLIKE MOST OF THE PREVIOUS FISCAL MESURES TAKEN, NOT INFLATIONARY. AFTER AN ENORMOUS AMOUNT OF PRE-SPEECH PRESS SPECULATION SETTING FORTH ONE BLEAK PROSPECT AFTER ANOTHER OF GOVERNMENT PLANS TO CUT BACK TTHE COST OF LABOR, ANDREOTTI VERY ADROITLY MADE THE MOST OF SUCH AD-

VANCE PUBLICITY BY PLACING THE PROBLEM IN THE JOINT
LAPS OF LABOR AND INDUSTRY. HE THEN NOT ONLY SET
A TIME LIMIT FOR THEIR REPLY, BUT SKETCHED THE SCENE
FOR GOVERNMENT MEASURES WHICH WOULD HAVE TO BE
TAKEN--FISCALIZATION OF SOCIAL INSURANCE COSTS AND THE
INFLATIONARY EFFECTS OF FINANCING THOSE COSTS
BY RAISING VALUE-ADDED TAXES--IF THEY COULD NOT
AGREE ON AN ACCEPTABLE SOLUTION. VOLPE

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